

To: State of Michigan

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Q21. How does Michigan's Energy Optimization Standard and Michigan's Renewable Energy Standard interrelate in terms of planning, implementation and compliance? How does energy efficiency and renewable energy interrelate in other jurisdictions?

PA 295's Energy Optimization standards were adopted for the express purpose, "to reduce the future costs of provider service to customers. In particular, an EO plan shall be designed to delay the need for constructing new electric generating facilities and thereby protect consumers from incurring the costs of such construction."

However, Michigan has not used an integrated planning approach to the renewable energy and energy optimization targets, or to resource planning more generally. Since passage of PA 295, there have been no long-range integrated resource planning (IRP) proceedings through which the costs and benefits of a full range of resource choices, including demand side, generation, and transmission and distribution, to meet projected demand could be thoroughly assessed. Both efficiency and renewables have the potential to delay or defer higher cost investments, but only in rare instances, when a utility proposes a major new generation facility that would cost more than \$500 million, is there any obligation to engage in a full long-range resource plan. Few resource decisions meet the threshold to trigger the planning process.

Question 21 speaks only to the relationship between renewable energy and energy efficiency investments, but there would be little value in simply building stronger connections between the efficiency and renewable planning processes. Much larger benefits would be gained in establishing a regular schedule of long-range resource planning for Michigan utilities, that would integrate planning for generation investments (new and retrofits, renewable and non-renewable), transmission investments, distribution investments and energy optimization. Through this process, the utility, regulators and stakeholders could identify opportunities for efficiency and renewables to be targeted not simply to comply with the standards, but to defer a distribution system upgrade, or to avoid the need for an expensive retrofit of an existing generation unit.

A good example of the benefits if integrated resource planning can be found in the Northwest Power and Conservation Council's 2010 IRP for the Bonneville Power Administration. After comparing the costs and benefits of resource choices, and modeling 750 different scenarios, the NPCC found that the best mix of resources for the system and its customers is to meet 85% of growth over 20 years with energy efficiency. A March 2013 mid-term assessment of that plan reports that energy efficiency had been acquired at even lower costs than planned. A summary of the mid-term assessment is found here:

<http://www.nwcouncil.org/media/6662000/2013-05.pdf>.

Integrated planning has an important role for utilities even if retail choice is ultimately expanded in Michigan. For example, ConEd in New York, which is in a competitive generation market, has (voluntarily) engaged in planning on the distribution side to good effect. By using energy efficiency to defer anticipated distribution system upgrades, it saved customers over \$1 billion dollars.¹

We recommend that integrated resource planning be required for each major Michigan utility on a regular basis. The Northwest plan is reviewed and updated every five years, for example. Moreover, we recommend that the planning process require that transmission and distribution investments be compared to non-wires alternatives, including energy efficiency and renewable energy that are above and beyond mere compliance with the standards, which should be in the forecast baseline. Finally, we recommend a lower threshold for triggering the obligation to acquire a certificate of need for a resource investment, and a stronger link between the resource plan and the ability of the utility to recover costs for a given investment.

¹ Neme, Chris and Sedano, Rich. US Experience with Efficiency As a Transmission and Distribution System Resource, February 2012, Regulatory Assistance Project.